

**IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA**

EPSILON ENERGY USA, INC.,

No. 3:18-cv-01852-RDM

Plaintiff,

Electronically Filed

vs.

CHESAPEAKE APPALACHIA,
L.L.C.,

Defendant.

DECLARATION OF SHELDON BURLESON

I, Sheldon Burleson, make the following statements based on my personal knowledge:

1. I have been employed by Chesapeake since 2014, and am currently the Vice President of the Appalachia Business Unit for Chesapeake Appalachia, L.L.C. Prior to this, I was the Rockies Production Manager for Chesapeake and, from 2016 to 2017, I was the Director of Corporate and Strategic Planning. In this position, I was responsible for Corporate Reserves, Strategic Planning, and Financial Planning and Analysis.

2. I received my B.S. in Petroleum Engineering from Texas Tech University in 1999, and my M.B.A. from Tulane University in 2005, and have worked in various positions in the oil and gas industry since 2000.

3. In my current position, I have become familiar with the Cannella North Unit, the Cannella South Unit, and the Rylee North Unit, all located in Susquehanna County, Pennsylvania.

4. I am familiar with the wells that Epsilon Energy USA, Inc. (“Epsilon”) proposed on February 8, 2018, known as the Cannella N SUS 3LH Well and the Cannella S SUS 4LH Well (the “Epsilon Wells”). The Epsilon Wells were intended to target the Lower Marcellus Formation, one in the Cannella North Unit and one in the Cannella South Unit.

5. I am familiar with the wells that Chesapeake proposed on August 15, 2018, known as the Cannella 24HC Well and the Cannella 25HC Well (the “Allocation Wells”). The Allocation Wells are intended to target the Upper Marcellus Formation in the Cannella South Unit and the Rylee North Unit.

6. Chesapeake has reviewed geological data in analyzing the wells proposed by Epsilon and made its own drilling plans.

7. Chesapeake’s data shows that in the area of the Cannella Units the Upper Marcellus Formation and the Lower Marcellus Formation are separate natural gas reservoirs or flow units. This means that a well drilled in one formation would not interfere with a well drilled in the other. An example of this is the Kipar well in which Epsilon participated.

8. Specifically, the Upper and Lower Marcellus Formations are separated by another geologic formation called the Cherry Valley Formation, which the data shows is consistent in thickness and nature in this area. Chesapeake's data also shows that the Cherry Valley Formation is a competent frac barrier, which means that if a well was completed in the Upper Marcellus Formation, it would not negatively impact the Lower Marcellus Formation.

9. Based on this data, the Allocation Wells, which target the Upper Marcellus Formation, will not negatively impact potential development of the Epsilon Wells, which targeted the Lower Marcellus Formation.

10. I am familiar with the well pad known as the Cannella Well Pad from which the Allocation Wells will be drilled and the Epsilon Wells, as proposed, could be drilled.

11. The Cannella Well Pad currently has four wells drilled from it, and has space for at least four additional wells.

12. The two Allocation Wells and the two Epsilon Wells could all be drilled on the Cannella Well Pad, as currently constructed.

13. I am also familiar with the Auburn Gas Gathering System (the "Auburn GGS"). The Allocation Wells, as proposed, and the Epsilon Wells, as proposed, would flow gas into the Auburn GGS.

14. Though every gathering system has some limit on capacity, limitations on capacity of the Auburn GGS are not an issue in this instance.

15. The Auburn GGS has the capacity to gather 330 MMcf of gas per day. Currently, the system is gathering approximately 190 MMcf per day, leaving approximately 140 MMcf of available capacity. Connecting the Allocation Wells to the Auburn GGS will not exhaust the capacity of that system. In fact, there is sufficient capacity on the system to allow for the gas from both the Allocation Wells and the Epsilon Wells to be gathered by the system as it currently operates.

16. I have analyzed the economic implications of Chesapeake not being able to drill and complete the Allocation Wells by June 15, 2019, which would reduce the size of the Cannella South Unit and the Rylee North Unit and result in the expiration of additional leases in the Rylee North Unit.

17. In that event, Chesapeake will also lose two additional wells in the Lower Marcellus Formation in the Rylee North Unit. Based on my analysis, the total value lost of these two Lower Marcellus wells just to Chesapeake will be \$10,913,824. The total value lost of these two Lower Marcellus wells to all of the working interest owners in the Rylee North JOA will be \$22,383,529. If Epsilon's 1.572025% working interest in the Rylee North Unit is excluded, the total value lost to the remaining working interest owners will be \$22,031,654. These total values lost were determined according to the calculations in the following table:

CHK Working Interest Scenario	Cannella 6H LL	Cannella 6H PV10	Cannella 6H \$ per foot	Rylee North LL	Lost PV10 - Rylee North Unit	Number of Wells in Rylee North Unit	Total Value Lost
Lower Marcellus Type Well - Rylee North Unit	6,800	\$5,890,000	\$866	6,300	\$5,456,912	2	\$10,913,824
100% Working Interest Scenario							
Lower Marcellus Type Well - Rylee North Unit	6,800	\$12,080,000	\$1,776	6,300	\$11,191,765	2	\$22,383,529

I declare under penalty of perjury that the foregoing is true and correct,
pursuant to 28 U.S.C. § 1746.

Dated: 10/11/2018


Sheldon Burleson